

Baxter International (BAX)

\$93.14 (As of 02/14/20)

Price Target (6-12 Months): **\$98.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/01/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: C

Growth: B

Momentum: B

Summary

Baxter continues to benefit from its core Renal Care, Advanced Surgery and Acute Therapies units. Baxter's surgical portfolio is expected to generate huge profits on the back of products like FLOSEAL Hemostatic Matrix, TISSEEL Fibrin Sealant among others. Driven by these factors, Baxter outperformed its industry in a year's time. Baxter reported solid preliminary revenues in the fourth quarter. Higher revenues across all global businesses and regions, and continued execution on business transformation initiatives fueled the company's preliminary fourth-quarter results. However, the company's Clinical Nutrition unit has witnessed sluggishness of late. Cutthroat competition in the MedTech markets is indicative of dull prospects.

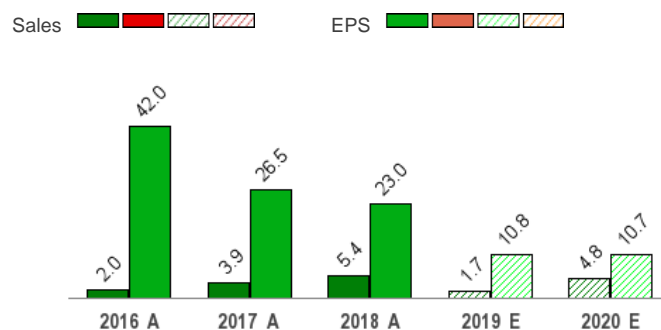
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$95.00 - \$72.42
20 Day Average Volume (sh)	2,278,799
Market Cap	\$47.6 B
YTD Price Change	11.4%
Beta	0.96
Dividend / Div Yld	\$0.88 / 0.9%
Industry	Medical - Products
Zacks Industry Rank	Top 33% (84 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	9.9%
Last Sales Surprise	1.9%
EPS F1 Est- 4 week change	-0.2%
Expected Report Date	02/20/2020
Earnings ESP	-1.2%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	2,828 E	2,970 E	2,998 E	3,104 E	11,860 E
2019	2,632 A	2,840 A		2,945 E	11,316 E
2018	2,677 A	2,842 A	2,767 A	2,841 A	11,127 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.82 E	\$0.93 E	\$0.97 E	\$1.05 E	\$3.74 E
2019	\$0.76 A	\$0.89 A		\$0.87 E	\$3.38 E
2018	\$0.70 A	\$0.77 A	\$0.80 A	\$0.78 A	\$3.05 A

*Quarterly figures may not add up to annual.

P/E TTM	28.8
P/E F1	24.9
PEG F1	2.0
P/S TTM	4.3

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/14/2020. The reports text is as of 02/17/2020.

Overview

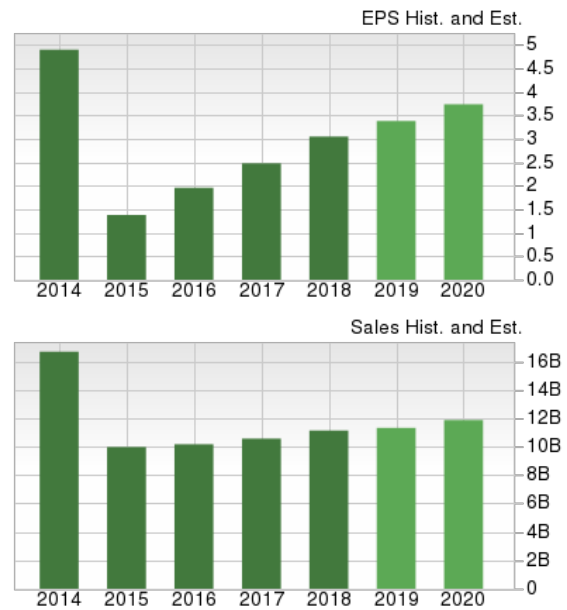
Headquartered in Deerfield, IL, Baxter International Inc. (BAX) is a global medical technology company. However, the company spun off its biopharmaceuticals segment into an independent entity – Baxalta Inc. Following the spinoff, the company consists of renal and hospital products, providing items such as kidney-dialysis equipment, infusion pumps, and intravenous (IV) solutions.

Baxter has been reporting through six revenue segments.

- Renal Care (32.9% of net sales in 2018)
- Medication Delivery (24%)
- Pharmaceuticals (18.8%)
- Clinical Nutrition (7.9%)
- Advanced Surgery (7.2%)
- Acute Therapies (4.6%)
- Other (4.6%)

Baxter's Renal segment primarily consists of Peritoneal Dialysis (PD) and Hemodialysis (HD) therapies. The portfolio addresses the needs of patients with kidney failure or kidney disease, and their healthcare providers, with a comprehensive range of therapeutic options across home, in-center, and hospital settings for better individualized care. Pharmacy Solutions (IPS) mainly includes premixed and oncology drug platforms, nutrition products and pharmacy compounding services. Cyclophosphamide is a part of this division. Surgical Care includes inhaled anesthesia products as well as biological products and medical devices used in surgical procedures for hemostasis, tissue sealing and adhesion prevention. Other segment primarily generates revenues from the company's pharmaceutical partnering business.

2018 at a Glance: Baxter reported net revenues of \$11.13 billion in 2018, up 5% year over year on a reported basis. Adjusted earnings of \$3.05 per share, improved 23% year over year.



Reasons To Buy:

- ▲ **Shares Up:** Over the past year, shares of Baxter have returned 26.8% compared to the industry's rise of 11.2%. The current level outpaces the S&P 500 index's rise of 21%.

Plethora of regulatory nods, strategic acquisitions and a strong guidance favor the stock.

- ▲ **Guidance Strong:** Per the preliminary third-quarter 2019 results, management at Baxter expects revenues to grow in the range of 3-4% on a reported basis, and approximately 5% on both cc and operational basis in fourth quarter 2019. For the fourth quarter of 2019, the company projects operating margin to range between 15.2% and 15.9% on a reported basis and 18.5-19% on an adjusted basis.

Positive tidings on regulatory front, expanding product portfolio, strategic collaborations and strong presence in the international markets are key positives.

- ▲ **Acute Therapies Profile:** Baxter's performance in acute therapies has been continued to be driven by improving utilization for CRRT globally, and increased demand for multi-organ support products. In acute therapies, Baxter launched the first 3-in-1 oXIRIS set for continuous renal replacement therapy and sepsis management protocols. This adds to Baxter's multi-organ therapy offering, utilizing the Prismaflex system. The second quarter performance was primarily driven by the ongoing rollout of the PrisMax next-generation technology for CRRT and Therapeutic Plasma Exchange. PrisMax is available in the intensive care units in more than 20 countries across Europe and Asia-Pacific. Per management, the company plans to bring additional markets on board through 2020.

Per the preliminary third-quarter results, net revenues in Acute Therapies business were \$130 million, reflecting growth of 6.6% on a reported basis. New product launches, including PrisMax in the United States and increased global demand for Baxter's continuous renal replacement therapies, are driving Acute Therapies business.

- ▲ **Baxter – a Leading Player in Renal-Care Space:** Baxter provides renal care services across Asia, Europe and Latin America. Per the preliminary results, sales in the renal care segment were \$918 million in the second quarter, up 0.9% on a year-over-year basis. Performance was driven by robust growth in peritoneal dialysis therapies globally, partially offset by lower volume of sales with respect to select in-center HD products and impact of Revaclear dialyzer temporary supply constraints.

For more than 60 years, Baxter has been a leading provider for HD and PD. New therapies like expanded hemodialysis (HDx) and remote patient management has fortified the company's position in the renal care space.

The renal care products include AMIA Automated PD System with SHARESOURCE Remote Patient Management System, SHARESOURCE Remote Patient Management System, BICART Cartridge, Cartridge Blood Set, DIACLEAR Ultrafilter, DIASCAN Monitoring System, EXELTRA Dialyzer High-Flux, Single-Use Dialyzers, PD Simple Paks, POLYFLUX 6H Dialyzer and others. All these products enjoy high demand and have been significantly contributing to the company's top line in the past several quarters.

Baxter anticipates strong growth in global demand for continuous renal replacement therapies. Coming to guidance, Baxter continues to expect growth of around 2% at cc in the renal care segment in 2019. It is important to note here that the strategic exit made in the U.S. Bloodline's business is expected to negatively impact Renal Care sales by around \$55 million in 2019.

- ▲ **Baxter's Surgical Portfolio Holds Promise:** Baxter's surgical portfolio includes products like FLOSEAL Hemostatic Matrix, TISSEEL Fibrin Sealant, COSEAL Surgical Sealant and VASCU-GUARD Patch among others. The portfolio is composed of hemostasis (addressing bleeding), tissue sealing and hard tissue regeneration as well as soft tissue repair and microsurgery with products available in nearly 60 countries. Introduction of Peri-Strips Dry stapler and Tisseel Prima are likely to boost Baxter's surgical portfolio.

Per a CISION report, the Global Surgical and Medical device market is anticipated to witness a CAGR of 5.93% over the forecast period of 2017-2026, reaching a worth of \$828.6 billion by 2026. Considering the bullish market sentiments, we think this latest development is timely.

Notably, according to preliminary third-quarter 2019 results, revenues at the Advanced Surgery segment totaled \$216 million, up 8% from the year-ago quarter.

- ▲ **Strategic Collaboration with Mayo Clinic:** In 2018, in a bid to develop a renal care center in the United States, Baxter and Mayo Clinic had inked a collaboration agreement. The companies formed an outpatient clinic for chronic kidney disease management, home dialysis and in-center dialysis services. The renal care center will be established at the Mayo Clinic Dialysis Center in Jacksonville, FL. The collaboration will integrate Baxter Renal Care Services' proven clinical service model and CKD management program with Mayo Clinic's recognized excellence in care.

For investors' notice, the collaboration is the first initiative from the Baxter and Mayo Clinic five-year agreement that was announced earlier in 2017. Per the agreement, researchers and clinicians of the companies will work toward the treatment of kidney diseases, with additional projects planned in other areas. The collaboration focuses on new research and developments to bring innovation across different therapeutic areas. The agreement has been signed for a five-year period, with a five-year renewal option.

- ▲ **Positive Tidings on Regulatory Front:** Baxter has been witnessing positive tidings on the regulatory front.

In January, Baxter announced the enrollment of the first group of patients under a U.S. clinical trial for the company's flagship peritoneal dialysis (PD) solution generation system. Notably, the FDA has also approved the trial. For investors' notice, the system is not yet available for use by patients.

Baxter received CE mark for its PrisMax and TherMax blood warmer. The company has also submitted 510(k) clearance to the FDA for PrisMax.

During the second quarter of 2019, the company received FDA approval Myxredlin (Insulin Human in 0.9% Sodium Chloride Injection), which is the first and only ready-to-use insulin for IV infusion in the hospital and other acute care set up.

In recent times, the company received CE mark for the Evo IQ Infusion System in the United Kingdom and Ireland, representing the first in a series of planned regulatory submissions for the Evo IQ system. Additionally, the Evo IQ Infusion System recently received regulatory approval by the Therapeutic Goods Administration (TGA) in Australia.

- ▲ **Solid Global Foothold:** Baxter has a strong presence in foreign markets which makes international diversification a core component of the company's strategy.

Per the preliminary third- quarter 2019 results, Baxter recorded revenues of \$1.53 billion, up 2.5% on a year-over-year basis in Americas. In EMEA, revenues totaled \$730 million up 3.3% from the year-ago quarter. In APAC, revenues of \$587 million improved 4.3% from the prior-year quarter.

In spite of the weak performance in the first quarter, Baxter continues to experience the high growth for PD patients in the United States with patient volumes increasing in high-single digits in the first quarter. And in Japan, the successful rollout of Kaguya is also contributing to performance with patient growth advancing mid-single digits in the quarter. In Pharmaceuticals, growth in the quarter was driven by strength across the portfolio globally.

- ▲ **Strong Product Portfolio:** Baxter has an impressive product portfolio with improved existing products and new product development. Management has announced plans of introducing therapies and products, which are expected to contribute approximately \$1.7 billion to sales by 2023.

In the fourth quarter of 2018, Baxter enrolled the first patient in its U.S clinical trial for the in-home, on-demand PD solution generation system. This technology is believed to have great potential to improve the patient experience and simplify therapy management. The company also confirmed that Evo IQ pump platform is being launched in other global markets. Additional launches across the U.S and around the world include IV pharmaceuticals, surgical hemostats, sealants and nutritionals.

The company also upgraded the SIGMA Spectrum Infusion System with the launch of DeviceVue Advanced Asset Tracking System.

During the third quarter, the company introduced new data associating Sharesource remote patient management platform with reductions in hospitalizations for home PD patients. Moreover, the company achieved substantial milestones in its innovation pipeline, which includes U.S. and Canadian launches of PrisMax, U.S. launch of Myxredlin, European launch of Finomel along with U.S. launch of Clinolipid.

Reasons To Sell:

- ▼ **Valuation Looks Dull:** Baxter's P/E (F12M) ratio currently stands 24.56 over the past year, compared with 19.36 of the S&P 500 index.
- ▼ **Weak Trends in Q3:** In the third quarter, the company witnessed a contraction of 60 bps in preliminary adjusted gross margin.

In the quarter under review, revenues at the Other segment were \$140 million, down 4.1% from the year-ago quarter's tally.

- ▼ **Generic Competition for Cyclophosphamide:** Cyclophosphamide is a part of Baxter's Hospital Products segment. However, Baxter's cyclophosphamide performance over the last five years has lacked luster for the most part. Lower cyclophosphamide sales pose threats to the Integrated Pharmacy Solutions franchise business. Despite a promising portfolio, the company has failed to grab market share and substantially grow its top line, thanks to generic competition for cyclophosphamide.

For 2019, Baxter now anticipates U.S cyclophosphamide sales of approximately \$125 million, up from the previous estimate of \$105 million.

- ▼ **Sluggish Macro-environment:** Baxter depends on the European Union for about a third of its sales. This is a cause for concern, given the sluggish macro-environment, a glum outlook for hospital spending and tightening of reimbursement. The outlook also remains slightly uneasy in the U.S., where demand for many health care products is soft with an expectation of further price cuts on account of health care reforms.
- ▼ **Cutthroat Competition in Renal Care Market:** Increase in prevalence of renal diseases and a huge diabetic and obese population is responsible for the growth of renal dialysis market in North America, Europe and Asia Pacific. Notably, Middle East and Africa has the least share in the renal dialysis market. Per a report by Global Market Insights, the Global Renal Dialysis market is expected to exceed US\$ 104 billion by end of 2024.

Cutthroat competition in the Renal Care Market is likely to dent Baxter's margins. The company faces aggressive rivalry from MedTech behemoths like Fresenius Medical Care, DaVita Healthcare Partners Inc. and more.

Generic competition for Cyclophosphamide, and lackluster sales in a few sub-segments are key concerns.

Last Earnings Report

Baxter Misses Q3 Revenue Estimates, Issues Guidance

Baxter International Inc. reported preliminary third-quarter 2019 revenues of \$2.85 billion, which missed the Zacks Consensus Estimate of \$2.86 billion by 0.5%. However, the top line rose 3% year over year on a reported basis and 5% on both constant currency and operational basis.

However, the company hasn't released any earnings number in its preliminary results.

Geographical Details

Baxter reports preliminary operating results through three geographic segments — Americas (North and South America), EMEA (Europe, Middle East and Africa) and APAC (Asia Pacific).

In Americas, Baxter recorded revenues of \$1.53 billion, up 2.5% on a year-over-year basis.

In EMEA, revenues totaled \$730 million, up 3.3% from the year-ago quarter.

In APAC, revenues of \$587 million increased 4.3% from the prior-year quarter.

Segmental Details

Per the preliminary results, Baxter's results of its global business units are as follows.

Renal Care

This segment reported revenues of \$918 million in the quarter under review, up 0.9% year over year.

Medication Delivery

Revenues at the segment grossed \$701 million, up 7.5% from the year-ago quarter.

Pharmaceuticals

Revenues at the segment amounted to \$527 million, up 1.5% from the year-ago quarter.

Clinical Nutrition

Revenues at the segment were \$219 million, up 0.5% from the year-ago quarter.

Advanced Surgery

Revenues at the segment totaled \$216 million, up 8% from the year-ago quarter.

Acute Therapies

This segment reported revenues of \$130 million, up 6.6% from the prior-year quarter.

Other

Revenues in the segment grossed \$140 million, down 4.1% on a year-over-year basis.

Margin Analysis

Baxter registered preliminary adjusted gross profit of \$1.30 billion in the third quarter, up 1.8% year over year. As a percentage of revenues, preliminary adjusted gross margin came in at 45.7% in the third quarter, contracting 60 bps on a year-over-year basis.

Preliminary operating income surged 44.2% year over year to \$555 million in the quarter under review. As a percentage of revenues, preliminary operating margin expanded 370 bps to 17.6% in the third quarter.

Guidance

Per the preliminary results, the following is the fourth-quarter 2019 outlook.

For the fourth quarter of 2019, management at Baxter expects revenues in the range of 3-4% on a reported basis, and approximately 5% on both cc and operational basis.

The company projects operating margin to range between 15.2% and 15.9% on a reported basis and 18.5-19% on an adjusted basis.

Quarter Ending 06/2019

Report Date	Jul 25, 2019
Sales Surprise	1.91%
EPS Surprise	9.88%
Quarterly EPS	NA
Annual EPS (TTM)	3.23

Recent News

On Jan 12, Baxter posted upbeat preliminary fourth-quarter and full-year 2019 results and issued preliminary full-year 2020 guidance.

Valuation

Baxter's shares are up 11.4% and 26.8% in the year-to-date and the trailing 12-month periods, respectively. Stocks in the Zacks sub-industry and Zacks Medical sector are up 4.3% and 2.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is up 11.2% while sector is up 1.9%.

The S&P 500 index is up 4.9% in the year-to-date period and 21% in the past year.

The stock is currently trading at 24.56X Forward 12-months earnings, which compares to 25.68X for the Zacks sub-industry, 21.38X for the Zacks sector and 19.36X for the S&P 500 index.

Over the past five years, the stock has traded as high as 31.29X and as low as 9.11X, with a 5-year median of 23.77X.

Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$98 price target reflects 25.86X forward 12-months earnings.

The table below shows summary valuation data for BAX.

Valuation Multiples - BAX					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	24.56	25.68	21.38	19.36
	5-Year High	31.29	25.68	21.38	19.36
	5-Year Low	9.11	17	15.83	15.18
	5-Year Median	23.77	19.62	18.9	17.47
P/S F12M	Current	3.99	4.14	2.84	3.58
	5-Year High	4.01	4.14	3.83	3.58
	5-Year Low	1.24	2.87	2.45	2.54
	5-Year Median	3.07	3.21	2.96	3
P/B TTM	Current	6.07	3.26	4.63	4.36
	5-Year High	6.08	4.3	5.04	4.42
	5-Year Low	2.15	2.21	3.44	2.85
	5-Year Median	3.77	2.77	4.31	3.62

As of 02/14/2020

Industry Analysis Zacks Industry Rank: Top 33% (84 out of 255)



Top Peers

Accuray Incorporated (ARRAY)	Outperform
DaVita Inc. (DVA)	Outperform
AngioDynamics, Inc. (ANGO)	Neutral
Boston Scientific Corporation (BSX)	Neutral
Fresenius Medical Care AG & Co. KGaA (FMS)	Neutral
Medtronic PLC (MDT)	Neutral
3M Company (MMM)	Neutral
Becton, Dickinson and Company (BDX)	Underperform

Industry Comparison Industry: Medical - Products				Industry Peers		
	BAX Neutral	X Industry	S&P 500	BDX Underperform	BSX Neutral	FMS Neutral
VGM Score	B	-	-	F	B	B
Market Cap	47.55 B	318.30 M	24.61 B	70.56 B	58.97 B	24.44 B
# of Analysts	9	2	13	12	11	4
Dividend Yield	0.94%	0.00%	1.78%	1.21%	0.00%	1.12%
Value Score	C	-	-	D	C	A
Cash/Price	0.06	0.08	0.04	0.01	0.00	0.04
EV/EBITDA	19.93	0.18	14.06	21.36	26.34	7.50
PEG Ratio	1.95	2.85	2.09	2.05	2.26	2.74
Price/Book (P/B)	6.07	4.06	3.29	3.33	6.08	1.62
Price/Cash Flow (P/CF)	20.22	21.00	13.65	12.53	20.11	11.02
P/E (F1)	24.90	28.20	19.21	21.74	23.83	15.27
Price/Sales (P/S)	4.26	5.28	2.70	4.07	5.49	1.26
Earnings Yield	4.02%	0.32%	5.19%	4.60%	4.21%	6.54%
Debt/Equity	0.72	0.10	0.71	0.80	0.99	0.75
Cash Flow (\$/share)	4.61	-0.00	6.92	20.77	2.10	3.66
Growth Score	B	-	-	C	B	C
Hist. EPS Growth (3-5 yrs)	NA%	11.68%	10.85%	12.78%	14.77%	9.67%
Proj. EPS Growth (F1/F0)	10.56%	11.80%	7.17%	2.46%	12.37%	7.75%
Curr. Cash Flow Growth	14.69%	4.50%	8.56%	14.64%	-1.87%	2.60%
Hist. Cash Flow Growth (3-5 yrs)	-5.21%	9.59%	8.36%	24.86%	7.44%	5.04%
Current Ratio	2.78	2.77	1.23	0.96	1.14	0.98
Debt/Capital	41.88%	12.73%	42.91%	44.43%	49.72%	42.79%
Net Margin	13.80%	-12.89%	11.81%	4.96%	43.78%	7.47%
Return on Equity	22.99%	-7.35%	16.86%	15.50%	23.62%	9.92%
Sales/Assets	0.68	0.62	0.54	0.33	0.43	0.55
Proj. Sales Growth (F1/F0)	4.67%	11.88%	3.85%	2.06%	11.18%	6.07%
Momentum Score	B	-	-	F	C	C
Daily Price Chg	0.62%	0.00%	0.06%	2.31%	0.31%	1.03%
1 Week Price Chg	2.28%	0.00%	2.47%	-10.27%	0.76%	2.84%
4 Week Price Chg	3.50%	-1.83%	0.59%	-6.01%	-2.06%	7.43%
12 Week Price Chg	13.24%	10.07%	6.98%	4.52%	-0.12%	10.27%
52 Week Price Chg	28.58%	-1.80%	16.62%	6.43%	5.99%	6.07%
20 Day Average Volume	2,278,799	141,068	2,020,569	2,020,569	7,721,615	513,671
(F1) EPS Est 1 week change	-0.04%	0.00%	0.00%	-0.07%	-0.17%	0.00%
(F1) EPS Est 4 week change	-0.24%	0.00%	-0.05%	-4.76%	-1.70%	-0.09%
(F1) EPS Est 12 week change	-0.41%	0.00%	-0.17%	-4.76%	-1.35%	-0.47%
(Q1) EPS Est Mthly Chg	2.24%	0.00%	-0.24%	-14.82%	-4.90%	0.00%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	B
Momentum Score	B
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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